



Oddbins, Britain's quirkiest high street chain.



BRITAIN'S HIGH STREET BIN ENDS

Britain's former favourite high street retailer, Oddbins, continues to make serious losses for its French owner, Castel. Pinched between the multiples and specialist independents, and with many of its best sites stripped to boost its profitable sister chain Nicolas, Andrew Catchpole looks at whether Oddbins has had its day.

In 2001 when the French group Castel Frères bought Oddbins for £57m (\$112m/€77m), the potential future of this quirky, populist high street chain became a much discussed topic among both the British wine trade and the merchant's loyal customers. A well-loved institution, Oddbins had, however, almost as long a history of losing money as selling wine. Castel, France's largest privately owned wine company, boldly announced that it intended to turn the company into a profitable concern, aiming to succeed where the previous owner Seagram had failed. In the current difficult climate of wine retailing on the British high street, this was seen as ambitious.

Speculation circulated that Castel's primary aim lay in strengthening its

Nicolas operations in Britain and that it would either strip out the best Oddbins sites and resell the chain, or convert the majority of Oddbins to Nicolas. There was, of course, also the possibility that Castel could use its considerable financial resources and distributional muscle to turn Oddbins around. Now, with a significant chunk of the estate converted to Nicolas and ongoing losses still afflicting Oddbins, renewed and intense speculation surrounding the possible sale of the chain has re-emerged. At present, though, Oddbins, Nicolas and parent company Castel are remaining tight lipped about this state of affairs.

The Nicolas chain

Castel already had experience of the British market, through both its import-

ing arm Castel UK and, perhaps more relevantly, via its French-based Nicolas chain which had already crossed the Channel and begun expanding in Britain. In recent years, Nicolas has added to its 522 French stores with 80 in Britain, eight in Belgium and openings in Poland, Russia and Morocco. Faced with toughening trading conditions in France, where a mix of on-line and direct cellar door sales present an increasing challenge to traditional shop merchants, Nicolas has fared well in Britain, carving out a niche in upper-end high streets. Both Nicolas and Castel UK returned increased profits in Britain in 2006, with Nicolas alone bucking the downward trend among UK high street chains. Oddbins could clearly do with a dash of this financial shine.

However, the supposed synergies between the French-wine dominated Nicolas and the globally minded Oddbins are far from obvious.

Of course, both are high street retailers, operating in the mid-to-higher end of the market. This, though, is where the immediate similarities end. While Oddbins has consistently broadened its consumer base, expanding into high streets across the country, Nicolas inhabits a much more defined niche at the higher end of the market – precisely the territory where Oddbins in its younger days first made its name. As stated, Nicolas sales reside overwhelmingly in French wines, while Oddbins is global and arguably less focused in outlook. Nicolas thrives on precisely the kind of above average spend on French wines that has underpinned much of Majestic's success, a positioning at odds with the general trend to New World wines.

"Unlike other retailers, we don't focus on bulk discounts and we primarily sell wine as our core product," says Jerome Wargnier, head of marketing at Nicolas UK. "We do deliver and sell via our website, but we do not have any wholesale department and do not do much corporate business."

The chain's success is rooted in a sales mix comprising 20% Champagne, 60% table wines (95% of which are French), 15% spirits (of which malt whisky is dominant) and the remaining 5% split between cigars and a few soft drinks. Average spend per transaction varies between £14 (\$35/€18) and £30 depending on the store; with a mean spend across the board of £20 (\$39/€27) per customer.

The contrast with Oddbins

In the past, Oddbins was largely credited with establishing first Australia, then Chile, as affordable, easy-going options for the British wine drinking public. Innovative touches were found throughout its range, including early forays into Portuguese table wines and those of Greece. This innovation reflected its history. Started by entrepreneur Ahmed Pochee in

1963, Oddbins began by buying and selling bin ends and odd parcels of wines to restaurants and clubs in London's West End and this ethos of sourcing original and well-priced wines largely survived into its later days of expansion and corporate ownership. Oddbins also embraced a culture of bulk buy discounts on a rolling basis across many lines, which also include branded Champagne.

Today, though, the nature of the market place has changed. For some years Oddbins has found its New World focused and discounted bulk sales facing increasingly tough competition from often heavily discounted or very

"We do not believe that high street wine retailing is dead, as the doom merchants seem to be insisting. And as for accepting that Oddbins' time has passed, Mark Twain articulates it best: the report of our death is greatly exaggerated. We might start worrying if there are no rumours going round about Oddbins being sold! But for now we are very much here and intend to be around for a very long time to come."

*Fabrice Bidault,
managing director, Oddbins*

competitively priced rival lines in the multiple grocers. These same chains have upped the ante themselves with increasingly esoteric and exciting ranges of wine. At the other end of scale, specialist independents and even the relatively niche Nicolas chain itself have drawn customers from Oddbins' higher quality and more traditional listings. And Oddbins shops with dedicated fine wine offerings have also suffered as multiples such as Waitrose and Majestic have introduced similar dedicated fine wine outlets.

In buying Oddbins, Castel clearly saw an opportunity to expand its

Nicolas chain in the United Kingdom, cherry picking Oddbins sites for conversion, increasing the strength of Nicolas with its trend-bucking profitability in a growing niche wine sector. Nicolas could also expand its reach beyond its core estate in London and the South East. What followed has been a radical reordering of both the Oddbins range and the estate itself, with new store openings – including the rebranding of ex-Wine Cellar stores purchased by Castel and added into the Oddbins brand – far outnumbered by closures and the transfer of over 60 prime Oddbins sites to Nicolas stores across the country in the past two years alone.

Oddbins as a channel for Castel

Castel also set about realigning the remaining Oddbins estate as a conduit for greater volumes of Castel-owned and other French wines. One supplier to Oddbins speculated that Castel's purchase was in fact a way of hedging its bets in terms of selling its predominantly French portfolio into the UK, both in Nicolas and also via a chain whose non-traditional approach may help off-set the declining fortunes of French wine, especially at the lower price levels. Castel-owned brands, now accounting for 4% of Oddbins range in terms of product lines, and Castel-supplied French wines were incorporated into the core range.

Initially, a cull took place of the quirkiest and more esoteric wines that had always provided the edge and excitement behind Oddbins' off-beat image, albeit wines that had done little to directly boost profits in the past. By 2006 the buying of French wines for Oddbins was permanently consolidated at Nicolas headquarters. Oddbins has also changed its discounting policy, abandoning individual price promotions on wines and Champagnes, including such long-standing deals as its '7 for 6' offers. Instead, it has opted for what it describes as "lower consistent all year product prices with discounts available on case purchases", echoing the

Nicolas model.

The ongoing changes have had an impact on the Oddbins personnel. Head of retail Andy Gadsby resigned just before Christmas, following in the wake of head buyer Emma Nichols, who left on maternity leave earlier in 2007, but has yet to return, leaving her post empty to date. Nicolas has benefited from the transfer of Oddbins staff to its rebranded stores, but again there have been departures at branch management level. The educated, unstuffy approach of Oddbins staff has long been one of the company's strongest assets, with graduate training schemes at store management level, the option of WSET training for all full time staff, plus the incentive of a head office that has recruited internally whenever possible, attracting bright, wine articulate people. Morale in the company is currently understood to be low.

Profitability still in question

The problem is that regardless of Castel's streamlining of both the Oddbins estate and its buying operation, a shift towards profitable status has so far proved elusive. And Oddbins' popular image has been dealt a double blow by numerous commentators suggesting that its wine range has lost its lustre. Once the medal and accolade-winning darling of both wine competitions such as the IWC and the national press, the company has been conspicuous since the 2001 buy-out for a sharp decrease in awards and positive press comment.

Oddbins communications manager Jen Crabtree responds by pointing out that the company still retains the largest product range in its market place and that this range is currently "under extensive review to ensure that the company continues to champion smaller and more esoteric producers and wines".

While the Oddbins offer still impresses compared with its larger high street rival Threshers, it fails to generate the excitement found at Majestic - long a more realistic rival in terms of range, customer base and

"We are not writing the high street off. In fact, far from it. According to AC Nielson, the multiple specialist category as a whole is showing signs of turning around... and this should also be helped by the closing of unprofitable stores."



Patrick McGrath MW, director, Hatch Mansfield

approach to buying and selling wine. The in-stock range at Oddbins stands at 1,400 table wines, 130 Champagnes and sparkling wines, 50 fortified wines, 385 spirits, 260 fine wines, 145 beers and ciders, plus numerous soft drinks, sundries, aperitifs and liqueurs, and tobacco products. Crabtree describes the range as static year on year in terms of both the mix of table wines and breakdown of sales. Australia, followed in descending order by regional France, red Bordeaux, Champagne, white Burgundy, South America, South Africa and malt whisky, are the best represented categories on the shelves, reflecting the typical Oddbins sales mix.

So far Castel's assertions that it will deliver profits from Oddbins continue to be undermined by the merchant's performance. An operating loss of £3.18m on £122m sales in 2005 increased to a loss of £8.71m on £121m in 2006 and announcements of further losses to year-end 2007 are predicted by industry commentators. Oddbins' most recent directors' report recognises a need to "refocus activities and place emphasis on developing a new retail and wholesale strategy, identifying and disposing of any unprofitable areas of the business, implementing cost efficiencies and restructuring its working capital". Stock inventories have been streamlined, cutting stock holding from 132 to 84 days. Management earmarked a significant number of stores for disposal throughout 2007, along with the continued transfer of stores to its sister company Nicolas in a process that has trimmed the estate to around 170 stores, down from 250 at the time of purchase, and has just earmarked

another 21 stores to be sold.

"The process of transferring stores between both companies has concluded," insists Oddbins managing director Fabrice Bidault. "The last store was transferred in September 2007 and there are no further plans to rebrand other stores." As to whether even more Oddbins stores would be closed or sold in 2008, Bidault refuses to comment.

What next for Oddbins?

All this activity, and the possible conclusion of the Oddbins to Nicolas transfers, has thrown up more speculation than usual surrounding the future of Oddbins, a company plagued throughout its history by rumours of being perpetually for sale - rumours fervently denied by Oddbins and Castel. In March 2007, amid intense speculation, Castel was forced to issue a denial that Oddbins was for sale. The following month, on 1 April 2007, Oddbins loaned Nicolas £17.7m to enable Nicolas to buy 65% of Oddbins shares from its parent company. With Oddbins increasingly embedded in Nicolas, both companies were again forced to issue a denial of impending sale on 12 December 2007, after news of a meeting between senior Oddbins and Castel management and Vision Capital, owners of Threshers, was leaked to the press.

Bidault confirms that the meeting had taken place, insisting that it was at the request of Vision, lasted no more than an hour, and forcefully reiterated that Castel is not about to part with Oddbins. "I can state categorically that no one from the Castel Group, Oddbins or Nicolas spoke to the press about this meeting and maybe

the question that should be asked is who leaked this information, what was the agenda, is this a case of smoke-screens and mirrors?" says Bidault. "Oddbins is not for sale and Castel is committed to the brand."

Bidault is notoriously shy of journalists, recently being likened to the reclusive author JD Salinger by the national press. He has been similarly shy in outlining a vision for Oddbins in terms of its future strategy in the face of continued losses, simply reiterating comments that Oddbins is "headed for profit in the long term". He was, however, drawn to respond to the suggestion that Oddbins, which won the IWC Wine Merchant of the Year Award 12 times between 1988 and 2001, may no longer be a viable model given both the decline of high street retailing and Castel's dilution of its quirky USP.

"This is a case of relativity; without the changes that have taken place at Oddbins since being acquired by Castel the losses would have been significantly higher," he says. "The Wine Merchant of the Year Award does not take into account the profitability of the winner, so while previously there was an obsessive desire to win the award, the current management is more concerned with making Oddbins profitable." Bidault continues, saying: "Something being 'good', 'exciting' or 'quirky' does not make it profitable. Castel bought the company fully expecting to turn Oddbins into a profitable business, knowing this would take time, and they are sure that the benefits will materialise."

Can Oddbins be turned around?

Yet despite these assertions, the possibility remains that Castel misjudged just how much an investment of both money and time it would take to turn Oddbins around. Or, as one rival suggests, "overestimated its worth and underestimated how difficult it would be to find a buyer if its stated aim to turn Oddbins around proved beyond its reach". Certainly there are few players left on the British high street that could contemplate such a pur-

"Oddbins' reputation in the high street still resonates with enthusiasts as an interesting place to buy wine. But the whole of the high street is experiencing difficult times and at the moment it is hard to see a turning point."



Alastair Stevens, director of marketing and buying, Stevens Garnier

chase. Threshers would appear to be the obvious contender for ownership of its high street rival and it would seem incredible if Vision had not registered interest in buying Oddbins during its meeting. Such an outcome would reinforce Threshers' pre-eminent position on the high street, adding to its 2,000-strong estate with sites in relatively high-end high streets with a broad geographical spread around the country. Threshers, though, has been suffering from losses of its own and assuming Vision does see merit in merging Threshers with Oddbins, any offer made would likely be lower than the £57m paid just seven years ago by Castel.

In early February, Oddbins made it clear with a £2m investment that they were still at bat. Head of sales Andy

Gadsby has been replaced by senior staff and Duncan Holborn given the charge to lead key 47 outlets in a by-the-case attack on Majestic's commercial strategy.

Head of marketing Wargnier says that Nicolas will continue to expand on a store-by-store basis as and when appropriate sites are found. Further consolidation of buying, distribution and administrative tasks at the joint Oddbins-Nicolas headquarters in Wimbledon have also been hinted at.

But while the future of Nicolas in the UK seems assured, the fate of Oddbins remains less certain. Whatever Castel's initial rationale was for buying Oddbins, it has ended up with the costly and lumbering bin end of a once great high street chain and one that appears to be increasingly difficult to either turn around or perhaps even to sell. ■

Battle of the high streets: Nicolas vs Oddbins



Average Spend: £20

Product Split:

Champagne 20%, Wine 60% (of which 95% is French), Spirits 15%, Cigars and Soft Drinks 5%

Outlets:

France 522, Britain 81, Belgium 8, Russia 2, Morocco 1, Poland 1

Average Spend: not given

Product Split: (major lines)

1,400 table wines on inventory, 275 Australia, 147 Regional France, 147 Bordeaux, 145 Burgundy, 130 Champagnes and sparkling wines, 90 South America, 87 South Africa, 78 Italy, 73 Spain, 59 Rhone, 51 New Zealand, 50 Loire, 50 fortified wines, 385 Spirits, 260 fine wines, 145 beers and ciders

Outlets:

Britain 170, France (Calais) 1